

Report
of the
Examination of
Premier Medical Insurance Group, Inc.
Madison, Wisconsin
As of December 31, 2001

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott McCallum, Governor
Connie L. O'Connell, Commissioner

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May 24, 2002

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Honorable Connie L. O'Connell
Commissioner of Insurance
Madison, Wisconsin

Commissioner:

In accordance with your instructions, a compliance examination has been made of
the affairs and financial condition of:

PREMIER MEDICAL INSURANCE GROUP, INC
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

Premier Medical Insurance Group, Inc. ("Premier" or "the company") was organized August 22, 1995. The current examination covered the intervening period ending December 31, 2001, and included a review of such 2002 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Affiliated Company
- Growth of the Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

The section of this report titled "Summary of Examination Results " contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the Company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

Premier Medical Insurance Group, Inc. was incorporated on August 22, 1995, and commenced business January 1, 1997. The company is owned 53% by Dean Health Systems, Inc. and 47% by SSM Health Care.

Premier was licensed to conduct indemnity insurance business. On November 14, 1995 Premier formed its own wholly owned subsidiary, Dean Health Plan Acquisition Company. Effective January 1, 1996, Dean Health Plan (DHP), a group model HMO licensed in Wisconsin, merged with Dean Health Acquisition Company. DHP stock was converted into stock of Premier and the common stock of Premier owned by DHP was canceled. Concurrent with the reorganization, Dean Health Plan Acquisition Company changed its name to Dean Health Plan. As a result of these transactions, DHP became a wholly owned subsidiary of Premier. In conjunction with the reorganization, 1,500 shares of preferred stock of DHP were converted to 1,500 shares of preferred stock of Premier. The Dean Foundation for Health, Research and Education, Inc., owned the 1,500 shares of preferred stock of Premier until September 6, 2000 when Premier redeemed the 1,500 shares of stock.

Premier provides all primary and specialty care services to insureds through a service agreement with its parent, Dean Health Systems Inc. (DHS). DHS owns and operates Dean Physician Practice Association. All primary and specialty care services which are not available through DHS are subcontracted to other clinics and physicians. DHS and subcontracted clinics and physicians provide primary and specialty care services to enrollees through a network of approximately 1,640 physicians.

DHS and SSM Health Care of Wisconsin, Inc. (SSMWI) assume all of Premier's actuarial risk of furnishing covered services to insureds. As compensation for all provider services, Premier pays a capitation to DHS and SSMWI. The capitation is calculated as a percentage of the premium charged by Premier to policyholders. The capitation gets modified prospectively each September for the following year. During the year, capitation payments are made to a physicians' fund and a non-physicians fund. The capitation was apportioned 36% to

the physicians fund and 64% to the non-physicians fund for year-ended 2001. The physician fund, a bank deposit account, is solely owned by DHS.

The contract between Premier and DHS is effective July 1, 1995, and terminates December 31, 2010. This contract may be terminated for breach of material provision following a 30-day written notice by the terminating party. The contract with DHS has no withhold provisions.

DHS and subcontracting providers are required to provide medical services on a 24-hour basis. DHS currently subcontracts with 192 IPAs and clinics.

Subcontracting physician providers are subject to withholds and discounts for outpatient and inpatient services. Distribution of such withholds is at the sole discretion of DHS. DHS may assess providers the amount necessary to cover the shortfall between capitation receipts and payments for medical services. Contracts between DHS and subcontracting providers have a one-year term and may be terminated by either party for breach of material provision upon 30 days' written notice. DHS may terminate the contract without advance notice for gross misconduct of a provider. The contracts include hold-harmless provisions for the protection of policyholders.

As earlier discussed, Premier provides all covered medical services, including hospital services, to its insureds through a service agreement with DHS and SSMWI. SSMWI was assigned the rights under this contract effective January 1, 2000 from SSM Health Care (SSMHC). SSMHC owns and operates St. Marys Hospital Medical Center. All inpatient services which are not available through SSMHC are subcontracted to other hospital providers. Under the service agreement, Premier pays a capitation to SSMWI. During the year, capitation payments are made to the nonphysicians fund, a bank deposit account jointly owned by SSMHC and DHS. St. Marys Hospital Medical Center and subcontracted nonphysician providers such as other hospitals, chiropractors, pharmacies, and durable equipment providers are compensated on the basis of such subcontracts, from the nonphysician fund. Any deficit or surplus is shared 50/50 by both SSMHC and DHS. SSMHC contracts with 25 hospitals. Reimbursement to subcontracting hospitals are based on negotiated discounts or diagnosis-related groups (DRGs). The contracts include hold-harmless provisions for the protection of policyholders.

Inpatient mental health and AODA coverage is limited to 10 days, outpatient mental health and AODA coverage is limited to 20 visits, and transitional mental health and AODA coverage is limited to 15 days per benefit year. Emergency services have a \$50 copayment, which is waived upon admission into an inpatient facility and skilled nursing care is limited to 120 days. Plan coverage is contingent on nonemergency services being provided by participating physicians and hospitals or on the referral of participating physicians.

Premier currently markets to groups and individuals. The company uses outside agencies and pays a 5% to 10% commission on new and renewal individual business. Commissions for group business is based on a sliding scale ranging from 6% for the first \$15,000 of a group premium to 0.5% for amounts over \$200,000.

Premium rates are determined on a community-rating basis. The company uses prior year actual expenses per member month for each plan and adjust for inflation, changes in utilization, changes in enrollment mix, and catastrophic losses. Amounts for administration, reinsurance, or reserves are added to the projected medical expense to arrive at the premium.

III. MANAGEMENT AND CONTROL

The board of directors consists of 11 members. The membership is divided into three groups with staggered expiry terms. Per the amended and restated bylaws, annual meetings are to be held each year primarily to elect board of directors to serve a three-year term. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive \$3,000 per year for serving on the board, plus \$300 for each board meeting attended. Finance committee members get an additional \$200 per committee meeting attended.

Currently the board of directors has one vacancy, and consists of the following persons:

| Name and Residence | Principal Occupation | Term Expires |
|---|--|---------------------|
| Jeffrey Stitgen, M.D. Middleton, WI | Physician, Dean Health Systems, Inc. | 2004 |
| Paul Berge Middleton, WI | Chairman of the Board, M & I Bank | 2004 |
| William Schoenhar Kirkwood, MO | Executive Vice President and COO, SSM Health Care | 2004 |
| Ralph L. Andreano, Ph.D. Madison, WI | Professor, University of Wisconsin-Madison | 2003 |
| Daniel T. Danahy, M.D. Madison, WI | Physician, Dean Health Systems, Inc. | 2003 |
| Gerald W. Lefert Madison, WI | President, St. Marys Hospital | 2003 |
| Mary Starmann- Harrison Madison, WI | Hospital Administrator, St. Mary's | 2003 |
| Dale Miller, M.D. Janesville, WI | Physician, Dean Health Systems, Inc. | 2002 |
| William P. Thompson St. Louis, MO | Senior Vice President, SSM Health Care, Inc. | 2002 |
| John Vukich Madison, WI | Physician, Davis Duehr Dean | 2002 |

Officers of the Company

The officers elected or appointed by the board of directors and serving at the time of this examination are as follows:

| Name | Office | 2001 Salary |
|-----------------------|---|--------------------|
| Robert L. Palmer | President and Chief Executive Officer | \$475,680 |
| Mary K. Welch | Secretary / VP of Managed Care | 197,663 |
| Allison A. Mooney | Treasurer / Chief Operating Officer | 284,490 |
| Mark A. Kaufman, M.D. | Chief Medical Officer | 340,536 |
| Susan Bernhagen | Vice President – Finance | 108,220 |
| Daniel E. Edge | Vice President – Member Services | 159,456 |
| Robert F. Myers | Vice President – Planning & Development | * |

All officers of the company are compensated by an affiliate, DHP.

* Robert Myers is a leased employee and is paid by SSM Health Care. DHP has an agreement with SSM Healthcare where they pay a set amount each month for his services.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Finance Committee

Jeffrey Stitgen, M.D., Chair
Paul Berge
John Vukich, M.D.
Mary Starmann Harrison
Robert L. Palmer
Allen D. Kemp, M.D.
Steve Caldwell
Susan Bernhagen
Allison A. Mooney

Senior Management Committee

Robert L. Palmer, Chair
Mark Kaufmann, M.D.
Robert F. Myers
Allison A. Mooney
Kathy Welch
Susan Bernhagen
Daniel E. Edge
Thomas J. Hirsch, M.D.

Quality Improvement Committee

Mark Kaufmann, M.D., Chair
Robert L. Palmer
Don Logan, M.D.
Kathy Welch, RN
Tim Lechmaier, M.D.
Mary Dorminski, M.D.
Nevin Olson
Andy Kosseff, M.D.
Barb Wegner
Pat Neely, RN
Tom Hirsch, M.D.
Peter Clagnaz, M.D.

Credentialing Committee

William S. Koller, M.D., Chair
George Benton, M.D.
Paul Reber, D.O.
Peter Clagnaz, M.D.
David Wolff, M.D.
Joe Fok, M.D.
Ellen Flannery, M.D.

Medical Peer Review

Thomas J. Hirsch, M.D., Chair
Mark A. Kaufmann, M.D.
William Koller, M.D.
David DeCock, M.D.
Samuel Frazer, M.D.
Peter Clagnaz, M.D.
Paul Reber, D.O.

Utilization Management Committee

Mark A. Kaufmann, M.D. Chair
Peter Clagnaz, M.D.
William Koller, M.D.
Paul Reber, D.O.
Samuel Frazer, M.D.
Thomas J. Hirsch, M.D.
Beckie Fenrick, PhD
Nevin Olson
Julie Pofahl
Mary Umbeck
Kathy Welch

Pharmacy and Therapeutics Committee

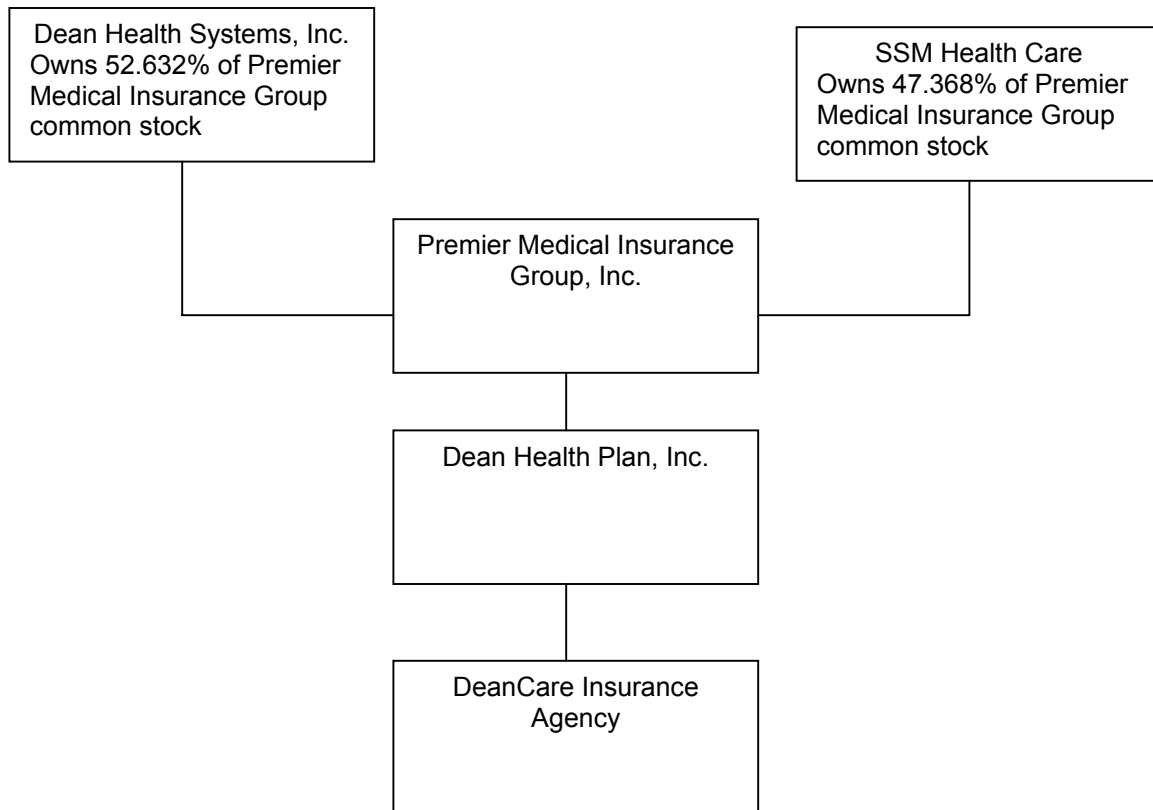
Gary Giorgi, M.D., Chair
Scott Bohon, M.D.
Bruce Dummond, M.D.
Timothy Lechmaier, M.D.
James Sehloff, M.D.
Mark Moore, M.D.
Kay Heggstad, M.D.
Lois Sater
Russ Jensen, R.Ph.
Geri Naymick, Pharm.D.
Beckie Fenrick, R.Ph.
Thomas Hirsch, M.D.
Reid Olson, M.D.
Theresa Behrs, M.D.
Tim Connor, R.Ph.
Kris Hosford, R.Ph.
Jeffrey Krawcek, M.D.
Karen Kopacek, R.Ph.
Sue Engelbaugh, RN
Ken Pippert, R.Ph.
Raul Ponte, M.D.
Tom Radloff, R.Ph.

Premier has no employees. Necessary staff is provided through a intercompany agreement with Dean Health Plan. Under the agreement, effective September 8, 1995, DHP agrees to negotiate employer, provider, subscriber, and other contracts; maintains accounting and financial records; recruits marketing, utilization review, and claims processing personnel; provides or contracts for claims processing, and MIS. DHP receives reimbursement for the actual cost of expenses. The term of the agreement is two years with automatic renewal for successive two-year periods. The company may terminate the agreement upon written notice to DHP.

IV. AFFILIATED COMPANIES

Premier Medical Insurance Group, Inc., is a member of a holding company system. Its ultimate parent is Dean Health Systems, Inc. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of Dean Health Systems, Inc, follows the organizational chart.

Holding Company Chart As of December 31, 2001



Dean Health Systems, Inc.

Dean Health Systems, Inc. (DHS) and subsidiaries is a health care delivery system that provides health care services and coverage, primarily to the residents of southern Wisconsin. DHS owns 52.632% of Premier Medical Insurance Group, Inc., the parent of DHP. Prior to 1995, DHS's legal name was Dean Medical Center, S.C., but the organization still uses the name "Dean Medical Center" for marketing purposes. DHS is owned by over 250 physicians with a 5% ownership by SSM Health Care Corporation. As of December 31, 2001, Dean Health Systems,

Inc., audited consolidated financial statement reported assets of \$268 million, liabilities of \$206 million, and net worth of \$62 million. Operations for 2001 produced net income of \$5.25 million.

Dean Health Plan

Dean Health Plan is a health maintenance organization (HMO) organized for the purpose of delivering health care services. DHP is a wholly owned subsidiary of Premier and provides administrative services to Premier under the agreement discussed in the caption of this report entitled "Management and Control." As of December 31, 2001, DHP's audited consolidated financial statement reported assets of \$89.5 million, liabilities of \$53.2 million and capital and surplus of \$36.3 million. Operations for 2001 produced net income of \$1.5 million.

SSM Health Care, Inc.

SSM Health Care, Inc. (SSMHC) is a not-for-profit corporation. SSMHC is one of the primary corporations included within the SSM Health Care System, which is sponsored by the Franciscan Sisters of Mary. SSMHC acquired ownership of 47% of Premier's issued and outstanding common stock in 1995. SSMHC owns and operates St. Mary's Hospital Medical Center in Madison. As of December 31, 2001, SSM Health Care System's audited financial statement reported assets of \$2 billion, liabilities of \$1 billion and net worth of \$1 billion. Operations for 2001 produced net income of \$47 million.

Dean Insurance Agency, Inc.

Dean Insurance Agency, Inc., is a wholly owned subsidiary of DHP. Dean Insurance Agency, Inc., provides insurance coverages to supplement the HMO products marketed by DHP. As of December 31, 2001, the agency's GAAP financial statement reported assets of \$582,000, liabilities of \$0, and net worth of \$582,000. The company did not have any operations for 2001. Net income was reported at \$52,000 for investment income.

Affiliated Agreements

Premier Medical Insurance Group, Inc. has entered into numerous affiliated agreements. These agreements are described below:

- Effective September 8, 1995, Premier entered into an agreement with DHP, in which DHP provides administrative services to Premier. This agreement is discussed in the caption of the report entitled "Management and Control."

- Effective July 1, 1996, the company has a service agreement with DHS and SSMHC for the provision of covered services to its members. This is discussed in the section of this report captioned "History and Operations."
- Effective January 1, 1997 Premier entered into a tax allocation agreement with DHP and Dean Insurance Agency, Inc. Premier shall file a consolidated tax return on behalf of all parties. The tax liability shall be apportioned among all members of the affiliated group in accordance with the ratio which that portion of the consolidated tax liability attributable to each member of the group having tax liability bears to the consolidated tax return based on separate return calculations with current credit for net losses.
- Effective January 1, 2001 Premier and DHP entered into an agreement with DHS for nurse triage services and the use of certain facilities and equipment of DHS. DHS will provide all of DHP and Premier enrollees a 24-hour phone nurse advice line known as "Dean On Call." DHS will submit monthly invoices to DHP to allocate costs by functions and the percentages of staff time allocated to each function.
- Effective January 1, 2001, DHP entered into an agreement with DHS, where DHS will provide pharmaceutical and support services to DHP and Premier. DHS will submit quarterly invoices to DHP, which include costs for services of the Dean Clinical Pharmacists.

V. REINSURANCE AND CORPORATE INSURANCE

The company does not have any reinsurance coverage.

Premier is provided with corporate insurance coverage under the contracts listed

below:

| Type of Coverage | Policy Limits |
|--|------------------------------|
| Boiler and Machinery | \$100,000,000 combined limit |
| Fiduciary Responsibility | 5,000,000 annual aggregate |
| Directors' and Officers' Liability | 5,000,000 each policy year |
| Workers Compensation | statutory |
| Employers' Liability | 500,000 policy limit |
| Professional liability | 1,000,000 each claim |
| | 1,000,000 annual aggregate |
| Excess Professional Liability | 4,000,000 each claim |
| | 4,000,000 annual aggregate |
| Building/Personal Property Blanket | 103,650,729 blanket limit |
| Employee Dishonesty | 500,000 limit per occurrence |
| Theft, Disappearance & Destruction (inside) | 100,000 limit per occurrence |
| Theft, Disappearance & Destruction (outside) | 100,000 limit per occurrence |
| Forgery or Alteration | 25,000 limit per occurrence |

Premier and DHP are named as insureds under all the policies except for the professional liability policy, where they are the primary named insurers.

The above coverages were obtained through various insurance companies licensed in the State of Wisconsin, except for the Professional Liability and Excess Professional Liability coverage, which was obtained by Lexington Insurance Company. Lexington Insurance Company is on the Commissioner's current list of approved surplus lines insurers.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2001, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company for the period under examination. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Capital and Surplus per Examination."

Premier Medical Insurance Group, Inc.
Assets
As of December 31, 2001

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|---|---------------------|-----------------------|------------------------|
| Bonds | \$ 2,221,706 | \$ | \$ 2,221,706 |
| Stocks: | | | |
| Common stocks | 40,745,545 | | 40,745,545 |
| Cash and short-term investments | 1,679,993 | | 1,679,993 |
| Accident and health premiums due and unpaid | 82,057 | | 82,057 |
| Investment income due and accrued | 21,105 | | 21,105 |
| Amounts due from parent, subsidiaries and affiliates | 10,834 | | 10,834 |
| Federal and foreign income tax recoverable and interest thereon | <u>141,000</u> | <u> </u> | <u>141,000</u> |
| Total assets | <u>\$44,902,240</u> | <u> </u> | <u>\$44,902,240</u> |

Premier Medical Insurance Group, Inc.
Liabilities and Net Worth
As of December 31, 2001

| | | |
|---|------------------|---------------------|
| Claims unpaid | | \$ 646,994 |
| Premiums received in advance | | 70,514 |
| Federal and foreign income tax payable and interest thereon | | 115,500 |
| Amounts due to parent, subsidiaries and affiliates | | 41 |
| Aggregate write-ins for other liabilities (including \$(1) current) | | <u>30,460</u> |
| Total liabilities | | 863,509 |
| Common capital stock | \$ 2,000,000 | |
| Gross paid in and contributed surplus | 32,176,886 | |
| Unassigned funds (surplus) | <u>9,861,845</u> | |
| Total capital and surplus | | <u>44,038,731</u> |
| Total liabilities, capital and surplus | | <u>\$44,902,240</u> |

Premier Medical Insurance Group, Inc.
Statement of Revenue and Expenses
For the Year 2001

| | | |
|--|----------------|-------------------------|
| Net premium income | | <u>\$1,586,957</u> |
| Total revenues | | 1,586,957 |
| Medical and Hospital: | | |
| Hospital/medical benefits | \$ 949,748 | |
| Other professional services | 17,623 | |
| Emergency room and out-of-area | 70,131 | |
| Aggregate write-ins for other medical and hospital | <u>472,342</u> | |
| Subtotal | 1,509,844 | |
| Less | | |
| Net reinsurance recoveries | <u>0</u> | |
| Total medical and hospital | 1,509,844 | |
| General administrative expenses | <u>163,634</u> | |
| Total underwriting deductions | | <u>1,673,478</u> |
| Net underwriting gain or (loss) | | (86,521) |
| Net investment income earned | 177,107 | |
| Net realized capital gains or (losses) | <u>8,073</u> | |
| Net investment gains or (losses) | | <u>185,180</u> |
| Net income or (loss) before federal income taxes | | 98,569 |
| Federal and foreign income taxes incurred | | <u>14,400</u> |
| Net income (loss) | | <u><u>\$ 84,259</u></u> |

Premier Medical Insurance Group, Inc.
Capital and Surplus Account
As of December 31, 2001

| | | |
|---|------------------|---------------------|
| Capital and surplus prior reporting year | | \$40,466,206 |
| Net income or (loss) | \$ 84,259 | |
| Net unrealized capital gains and losses | 1,932,776 | |
| Cumulative effect of changes in accounting principles | <u>1,555,490</u> | |
| Net change in capital and surplus | | <u>3,572,525</u> |
| Capital and surplus end of reporting year | | <u>\$44,038,731</u> |

Premier Medical Insurance Group, Inc.
Cash Flow
As of December 31, 2001

Cash from Operations

| | |
|--|-----------------|
| Premiums and revenues collected net of reinsurance | \$1,575,414 |
| Claims and claims adjustment expenses | 864,433 |
| General administrative expenses paid | <u>158,238</u> |
| Cash from underwriting | 552,743 |
| Net investment income | 185,144 |
| Other income (expenses) | 44,306 |
| Federal and foreign income taxes (paid) recovered | <u>(45,400)</u> |
| Net cash from operations | 736,793 |

Cash from Investments

| | | |
|--|------------------|----------------|
| Proceeds from investments sold, matured or repaid: | | |
| Bonds | <u>\$785,504</u> | |
| Total investment proceeds | | \$ 785,504 |
| Cost of investments acquired (long-term only): | | |
| Bonds | <u>754,433</u> | |
| Total investments acquired | | <u>754,433</u> |
| Net cash from investments | | 31,071 |

Cash from Financing and Miscellaneous Sources

| | | |
|---|---------------|--------------------|
| Cash applied: | | |
| Net transfers to affiliates | <u>19,350</u> | |
| Total | | |
| Net cash from financing and miscellaneous sources | | <u>(19,350)</u> |
| Net change in cash and short-term investments | | 748,514 |
| Cash and short-term investments: | | |
| Beginning of year | | <u>931,479</u> |
| End of year | | <u>\$1,679,993</u> |

Premier Medical Insurance Group, Inc.
Compulsory and Security Surplus Calculation
December 31, 2001

| | | | |
|---|------------|-------------------|---------------------|
| Assets | | \$ 44,902,240 | |
| Less decrease in assets due to exam adjustment | | 4,347,965* | |
| Less Investments in Insurance Subsidiaries | | 36,397,580** | |
| Add security surplus of insurance subsidiaries | | 13,581,271 | |
| Less liabilities | | <u>863,509</u> | |
| Adjusted surplus | | | \$16,874,457 |
| Group life and health | 1,586,957 | | |
| Factor | <u>10%</u> | | |
| Total | | \$ <u>158,696</u> | |
| Compulsory surplus (subject to a \$2,000,000 minimum) | | | <u>2,000,000</u> |
| Compulsory surplus excess or (deficit) | | | <u>\$14,874,457</u> |
| Adjusted surplus | | | \$16,874,457 |
| Security surplus: | | | |
| (140% of compulsory surplus, factor reduced 1% for | | | |
| each \$33 million in premium written in excess of | | | |
| \$10 million with a minimum of 110%) | | | <u>2,800,000</u> |
| Security surplus excess or (deficit) | | | <u>\$14,074,457</u> |

* See further detail in the section of this report captioned "Reconciliation of Capital and Surplus per Examination

** The investment in insurance subsidiaries is the statutory balance of DHP stock. This reflects the decrease in surplus due to the examination adjustment.

Growth of Premier Medical Insurance Group, Inc.

The company reported on the traditional NAIC life blank in prior to 2001. Therefore the numbers for expenses would have been categorized differently on the life statements. The examiner recategorized the expenses that could be identified as relating to medical expenses.

| Year | Assets | Liabilities | Capital and Surplus | Premium Earned | Medical Expenses Incurred | Net Income |
|-------|--------------|-------------|---------------------|----------------|---------------------------|------------|
| 2001 | \$44,902,240 | \$ 863,509 | \$44,038,731 | \$1,586,957 | \$1,509,844 | \$ 84,529 |
| 2000* | 42,152,651 | 1,686,445 | 40,466,206 | 1,531,990 | 1,454,171 | 92,469 |
| 1999* | 40,932,696 | 232,276 | 40,700,420 | 1,297,156 | 1,238,034 | 44,410 |
| 1998* | 40,264,794 | 26,770 | 38,088,024 | 0 | 0 | 88,532 |
| 1997* | 38,719,870 | 64,121 | 38,655,749 | 0 | 0 | 1,733,964 |
| 1996* | 39,380,168 | 2,458,383 | 36,921,785 | 0 | 0 | 2,569,494 |
| 1995* | 3,027,705 | 100 | 3,027,605 | 0 | 0 | 27,605 |

| Year | Profit Margin | Medical Expense Ratio | Administrative Expense Ratio | Change in Insureds |
|------|---------------|-----------------------|------------------------------|--------------------|
| 2001 | 4.8% | 95.1% | 10.3% | 1.4% |

Ratios were not available for the other years since the company had filed on the NAIC life blank.

Utilization

| Year | Insureds | Average Length of Stay |
|----------------|----------|------------------------|
| 2001 | 798 | 2.93 |
| 2000 | 787 | 3.47 |
| 1999 | 767 | 2.81 |
| 1998 and prior | 0 | N/A |

Per Member Per Month Information

| | 2001 |
|---------------------------------|------------------|
| Premiums: | |
| Commercial | \$ 172.08 |
| Expenses: | |
| Hospital/medical benefits | 102.98 |
| Other professional services | 1.91 |
| Emergency room and out-of-area | 7.60 |
| Other medical and hospital | <u>51.22</u> |
| Total medical and hospital | 163.71 |
| General administrative expenses | <u>17.74</u> |
| Total underwriting deductions | <u>\$ (9.38)</u> |

Premier currently insures one group, that DHP could not write due to underwriting restrictions. DHP requires a certain percentage for employee contribution on groups as outlined in its contract. The group Premier currently insures bases their contribution on the employee's salary and not the percentage set up in the DHP contract. The company continues to show favorable financial results, reporting net income in each year of operation. The primary decrease in liabilities from 2000 to 2001 was the result of the company no longer having to report AVR reserve, due to the change from the Life and Health Statement Blank to the Health Statement Blank.

Reconciliation of Capital and Surplus per Examination

The following schedule is a reconciliation of capital and surplus between that reported by the company and as determined by this examination:

| | | | |
|--|-----------------|-----------------|---------------------|
| Capital and surplus December 31, 2001, Per annual statement | | | \$44,038,731 |
| Examination Adjustments: | Increase | Decrease | |
| Common Stock | \$ | \$(4,347,965) | |
| Net increase or (decrease) | \$ | \$(4,347,965) | <u>(4,347,965)</u> |
| Capital and surplus December 31, 2001, per examination | | | <u>\$39,690,766</u> |

VII. SUMMARY OF EXAMINATION RESULTS

Summary of Current Examination Results

Financial Reporting

The company bills its premium one-month in advance. This premium is due at the end of the month it is billed. For example, January's premium, effective January 1, 2002, was billed at the beginning of December, and is due December 31, 2001. When the company sends out its bills in December, the entry made to its general ledger is to debit accounts receivable and credit unearned revenue.

The Interpretation of the Emerging Accounting Issues Working Group, INT 02-02, states that a "premium billing in advance of the effective date does not meet the third requirement of SSAP 4, paragraph 2 regarding the occurrence of the transaction or event giving rise to the entity's right to or control of the benefit. Therefore, an asset/receivable should not be recognized on the financial statements until the effective date of the underlying policy/contract (i.e. the effective date of the contract gives rise to the entity's right). The mailing of a premium billing has no determination in the reporting of such premiums as an asset."

INT 02-02 further states that "the mailing of a premium billing prior to the effective date does not result in the recognition of a liability for advance premiums. Advance premiums are only recognized when the reporting entity receives cash payment for premiums prior to the effective date of the contract. In the event that the reporting entity bills and receives payment for premiums prior to the effective date, the reporting entity will recognize the receipt of cash with a corresponding credit to advance premiums (in this case a receivable is not recognized as the payment is received prior to the effective date)."

The company should not report accounts receivable or unearned revenue for policy premium that has been billed and for which cash has not been received. The company should recognize advance premiums when the cash is received in advance of the effective date of coverage and recognize accounts receivable for amounts that have not been received by the effective date. The examination did not lead to an adjustment due to the fact that reports were not available to provide information necessary to determine the amount of the adjustment. The

change proposed would have been a reclassification and would have no effect on surplus. It is recommended that the company discontinue recording a receivable/liability on the financial statements for premiums billed in advance of the effective date for which the company has not received payment.

Articles and Bylaws

Premier's bylaws state that the board of directors shall establish an Executive Committee that should consist of three members. During fieldwork the company informed the examiner they did not have an Executive Committee, subsequent to fieldwork the examiner was provided with a listing of executive committee members from Dean Health Systems. This executive committee did not consist of Premier board members and therefore does not meet the requirements of the executive committee as set up in the company's bylaws.

The bylaws also state that the officers of the Corporation shall be elected annually by the Board of Directors and the first meeting of the Board of Directors held after each annual meeting of shareholders. The minutes did not document the election of the officers of the company. It is recommended that the company either abide by or amend its bylaws to reflect its current practices.

Common Stock

The company owns 100% of the common stock of Dean Health Plan. The Purpose and Procedures Manual of the NAIC Securities and Valuation Office states that investments in Subsidiary, Controlled and Affiliated (SCA) entities are recorded on the basis of the underlying statutory equity of the SCA entity's financial statements. The statutory equity on DHP's financial statement at December 31, 2001 was \$36,397,580. Premier had recorded the value of the investment at its GAAP net worth of \$40,745,545. The examination resulted in an adjustment to decrease the value of the common stock of DHP on Premier's statement by \$4,347,965. Surplus was decreased by the corresponding amount. It is recommended that the company comply with the Purpose and Procedures Manual of the NAIC Securities and Valuation Office and report the DHP common stock investment at its statutory equity value on financial statements.

Holding Company

The company is a member of a holding system. A summary of affiliated contracts was provided in Part IV of this report in the section captioned "Affiliated Company." The company was able to provide the examiner with copies of all executed agreements and amendments.

The examination reviewed the company's Form B, holding company registration statement for 2001 to verify complete disclosure of these contracts. Examination findings provided that the registration statement did not disclose the administrative services agreement with Premier and DHP, the agreement for pharmaceutical services with DHS, an intercompany agreement for the services of assistant and associate medical directors with St. Marys, and a leased employee agreement with St. Mary's. It is recommended that the company establish procedures to ensure all material contracts are properly listed on the Form B registration statement.

VIII. CONCLUSION

Premier's 2001 annual statement reported assets of \$44,902,240, liabilities of \$863,509 and surplus of \$44,038,731. Operations for 2001 produced a net income of \$84,259.

Premier was organized for the purpose of writing indemnity business in Wisconsin. Premier currently writes one group, that DHP could not write due to underwriting restrictions. This group handles its employee contribution portion differently than what is allowed in DHP's contract, therefore, Premier writes this group.

Dean Health Systems and SSM Health Care of Wisconsin assume all actuarial risk of furnishing covered services to the company's members through a service agreement effective July 1, 1996. This agreement terminates on December 31, 2010. As compensation for all provider services, the HMO pays a capitation to DHS and SSMWI. The capitation is calculated as a percentage of the premium charged to policyholders.

The current examination results decreased surplus by \$4 million to adjust the proper value of the common stock of DHP on the company's financial statements. Four recommendations were made regarding the company's financial reporting, bylaws, holding company report and common stock.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 26 - Financial Reporting—It is recommended that the company discontinue recording a receivable/liability on the financial statements for premiums billed in advance of the effective date for which the company has not received payment.
2. Page 26 - Articles and Bylaws—It is recommended that the company either abide by or amend its bylaws to reflect its current practices.
3. Page 26 - Common Stock—It is recommended that the company comply with the Purpose and Procedures Manual of the NAIC Securities and Valuation Office and report the DHP common stock investment at its statutory equity value on financial statements.
4. Page 27 - Holding Company—It is recommended that the company establish procedures in place to ensure all material contracts are properly listed on the Form B registration statement.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

| Name | Title |
|---------------|------------------------------|
| Sonja Dedrick | Insurance Financial Examiner |
| Mark Knievel | Insurance Financial Examiner |
| Randy Milquet | Examiner - Advanced |

Respectfully submitted,

Danielle C. Rogacki
Examiner-in-Charge